MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BEC1044 – MACROECONOMICS

(All Sections/Groups)

5 March 2020
9.00 am – 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **SEVEN (7)** pages including cover page with **TWO SECTIONS.**
1. Section A consists of **TWENTY-FIVE (25)** Multiple Choice Questions. All your answers to the multiple choice section must be marked on the multiple-choice answer sheet provided. If more than one circle is filled in for a single question, your answer for that question will be considered invalid.
2. Section B consists of **THREE (3)** Structured Questions. Please write all your answers on the answer booklet provided accordingly.
3. The marks distribution for each question is given. Total mark is 100.
4. Answer **ALL** questions.

SECTION A: MULTIPLE-CHOICE QUESTIONS (25 MARKS)

Answer all questions on the multiple-choice answer sheet provided.
Please choose one answer for a single question.

1. A professional gambler moves from a state where gambling is illegal to a state where gambling is legal. Most of his income was, and continues to be, from gambling. His move _____.
   a) necessarily raises GDP
   b) necessarily decreases GDP
   c) doesn't change GDP because gambling is never included in GDP
   d) doesn't change GDP because in either case his income is included

2. Which of the following statements about nominal GDP and real GDP is correct?
   a) Nominal GDP is a better gauge of economic well-being than is real GDP.
   b) Real GDP is a better gauge of economic well-being than is nominal GDP.
   c) Real GDP and nominal GDP are equally good measures of economic well-being.
   d) Nominal GDP reflects the economy's ability to satisfy people's needs and desires, but real GDP does not.

3. If the nominal interest rate is 8 percent and the rate of inflation is 3 percent, then the real interest rate is _____.
   a) -5 percent
   b) 1.67 percent
   c) 5 percent
   d) 11 percent

4. Which of the following is generally an opportunity cost of investment in human capital?
   a) Future job security
   b) Forgone present wages
   c) Increased earning potential
   d) All of the above are correct

5. Productivity is most closely matched with a country's _____.
   a) degree of real GDP
   b) degree of real GDP divided by hours worked
   c) growth rate of real GDP per person
   d) growth rate of real GDP divided by hours worked

6. National defense and knowledge are generally considered to be _____.
   a) private goods
   b) public goods
   c) proprietary goods
   d) societal goods

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7. When a union bargains successfully with employers, in that industry, _____.
   a) unemployment and wages increase
   b) unemployment and wages decrease
   c) unemployment decreases and wages increase
   d) unemployment increases and wages decrease

8. Based on a particular saving schedule, each change in disposable income of RM15 billion will generate an additional RM3 billion in saving. Therefore, _____.
   a) the Marginal Propensity to Save (MPS) is .3
   b) the Marginal Propensity to Save (MPS) is .2
   c) the Marginal Propensity to Save (MPS) is .5
   d) the slope of the consumption schedule is .7

9. Other things being the same, if reserve requirements are increased, the reserve ratio _____.
   a) increases, the money multiplier increases, and the money supply increases
   b) increases, the money multiplier decreases, and the money supply decreases
   c) decreases, the money multiplier increases, and the money supply increases
   d) decreases, the money multiplier decreases, and the money supply increases

10. You receive money as payment for babysitting your neighbor's children. This best illustrates which function of money?
   a) Medium of exchange
   b) Unit of account
   c) Store of value
   d) Liquidity

11. The discount rate is _____.
   a) the interest rates the Central Bank charges banks
   b) one divided by the difference between one and the reserve ratio
   c) the interest rate banks receive on reserve deposits with the Central Bank
   d) the interest rate that banks charge on overnight loans to other banks

12. The value of money falls as the price level _____.
   a) rises, because the number of Ringgit Malaysia needed to buy a representative basket of goods rises
   b) rises, because the number of Ringgit Malaysia needed to buy a representative basket of goods falls
   c) falls, because the number of Ringgit Malaysia needed to buy a representative basket of goods rises
   d) falls, because the number of Ringgit Malaysia needed to buy a representative basket of goods falls

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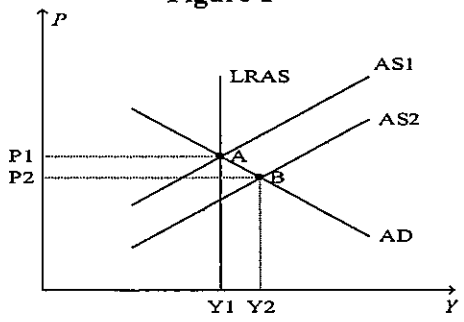
Figure 1



13. Refer to Figure 1, the appearance of the long-run aggregate-supply (LRAS) curve _____.
    a) is inconsistent with the concept of monetary neutrality
    b) is consistent with the idea that point A represents a long-run equilibrium but not a short-run equilibrium when the relevant short-run aggregate-supply curve is AS_1
    c) indicates that Y_1 is the natural rate of output
    d) All of the above are correct

14. Refer to Figure 1, Point B represents _____.
    a) a short-run equilibrium and a long-run equilibrium
    b) a short-run equilibrium but not a long-run equilibrium
    c) a long-run equilibrium but not a short-run equilibrium
    d) neither a short-run equilibrium nor a long-run equilibrium

15. Refer to Figure 1, starting from point B and assuming that aggregate demand is held constant, in the long run the economy is likely to experience _____.
    a) a falling price level and a falling level of output
    b) a falling price level and a rising level of output
    c) a rising price level and a falling level of output
    d) a rising price level and a rising level of output

16. If there are floods or droughts or decreases in the availability of raw materials _____.
    a) aggregate supply shifts to the right
    b) output falls in the short run
    c) prices fall in the short run
    d) None of the above is correct

17. The CPI is more commonly used as a measurement of inflation than the GDP deflator because _____.
    a) the CPI is easier to measure
    b) the CPI is calculated more often than the GDP deflator
    c) the GDP deflator cannot be used to measure inflation
    d) the CPI better reflects the goods and services bought by consumers

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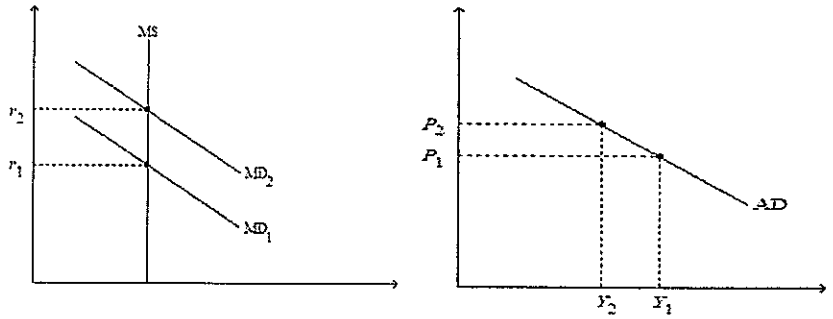
Figure 2
On the left-hand graph, MS represents the supply of money and MD represents the demand for money. On the right-hand graph, AD represents aggregate demand. The usual quantities are measured along the axes of both graphs.



18. Refer to Figure 2. What is measured along the horizontal axis of the left-hand graph?
    a) Nominal output
    b) Real output
    c) The opportunity cost of holding money
    d) The quantity of money

19. Refer to Figure 2. What does Y represent on the horizontal axis of the right-hand graph?
    a) The quantity of money
    b) The rate of inflation
    c) Real output
    d) Nominal output

20. Refer to Figure 2. A decrease in Y from Y_1 to Y_2 can be explained as follows
    a) The Central Bank increases the money supply, causing the money-demand curve to shift from MD_1 to MD_2; this shift of MD causes r to increase from r_1 to r_2; and the increase in r causes Y to decrease from Y_1 to Y_2.
    b) An increase in P from P_1 to P_2 causes the money-demand curve to shift from MD_1 to MD_2; this shift of MD causes r to increase from r_1 to r_2; and the increase in r causes Y to decrease from Y_1 to Y_2.
    c) A decrease in P from P_2 to P_1 causes the money-demand curve to shift from MD_1 to MD_2; this shift of MD causes r to increase from r_1 to r_2; and the increase in r causes Y to decrease from Y_1 to Y_2.
    d) An increase in the price level causes the money-demand curve to shift from MD_2 to MD_1; this shift of MD causes r to decrease from r_2 to r_1; and the decrease in r causes Y to decrease from Y_1 to Y_2.

21. If the U.S. real exchange rate appreciates, U.S. exports to Europe _____.
    a) and European exports to the U.S. both rise
    b) and European exports to the U.S. both fall
    c) rise, and European exports to the U.S. fall
    d) fall, and European exports to the U.S. rise

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22. The one variable that stands out as the most significant explanation of large variations in living standards around the world is _____.
    a) productivity
    b) population
    c) preferences
    d) prices

23. In a certain economy in 2018, households spent $1,000 on goods and services; purchases of capital equipment, inventories, and structures amounted to $350; government spent $450 on goods and services; and the value of imports exceeded the value of exports by $50. It follows that 2018 GDP for this economy was _____.
    a) $1,750
    b) $1,850
    c) $1,950
    d) $2,100

24. Other things being the same, which of the following would both make Malaysians more willing to buy Italian goods?
    a) Ringgit depreciates, the price of goods in Italy falls
    b) Ringgit depreciates, the price of goods in Italy rises
    c) Ringgit appreciates, the price of goods in Italy falls
    d) Ringgit appreciates, the price of goods in Italy rises

25. Who would be included in the labour force?
    a) Homer, who is waiting for his new job to start
    b) Michelle, who has become discouraged looking for a job and has quit looking for a while
    c) Derrick, an unpaid homemaker
    d) None of the above would be included in the labour force.

SECTION B: STRUCTURED QUESTIONS (75 MARKS)

Answer all questions on the answer sheet provided.

QUESTION 1 (25 marks)

a) Distinguish between Gross Domestic Product (GDP) and Gross National Product (GNP)? Give example to explain. (10 marks)

b) Which of the following are included in this year's GDP? Explain why each is included.
    i) Dr Simon grows vegetables for home consumption. (2.5 marks)
    ii) The income of a general practitioner. (2.5 marks)
    iii) Government pays out Bantuan Sara Hidup (BSH). (2.5 marks)
    iv) The purchase of leather by a shoe manufacturer. (2.5 marks)

c) Why is it desirable for a country to have a large GDP? Give an example of an event that would raise GDP and yet be undesirable. (5 marks)

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QUESTION 2 (25 marks)

a) Suppose that the government increases spending.
   i) Illustrate the multiplier effects on aggregate demand. (5 marks)
   ii) Use a diagram of the money market, illustrate why it may cause 'crowding out' to occur. (5 marks)

b) Table 1 shows the changes in deposits, reserves, and excess reserves of four banks as a result of a RM10,000 initial deposit in Bank A. Assume all banks loaned out their excess reserves.

Table 1

Bank	Deposits (RM)	Required reserves (RM)	Excess reserves (RM)
A	10000.00	500.00	9500.00
B	9500.00	475.00	9025.00
C	9025.00	451.25	8573.75
D	8573.75	428.69	8145.06

Based on Table 1, estimate
i) the required reserve ratio. (2.5 marks)
ii) the money multiplier. (2.5 marks)
iii) the total money created out of the initial deposit RM10000.00. (2.5 marks)
iv) the new excess reserve of Bank B if the required reserve ratio changed to 10%. (2.5 marks)

c) Give an example of a government policy that acts as an automatic stabiliser. Explain why such policy has this effect. (5 marks)

QUESTION 3 (25 marks)

a) Illustrate graphically the effect of the following factors on the aggregate demand (AD) curve:
   i) Interest-rate increases (5 marks)
   ii) An increase in taxes (5 marks)
   iii) An expansionary monetary policy (5 marks)

b) For each of the following events, explain the short-run and long-run effects on output and the price level using the AD-AS diagram.
   i) The stock market declines sharply, reducing consumers' wealth. (5 marks)
   ii) A technological improvement raises productivity. (5 marks)

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